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FISCAL IMPACT STATEMENT

LS 6365 **NOTE PREPARED:** Dec 16, 2003
BILL NUMBER: SB 432 **BILL AMENDED:**

SUBJECT: Deductions for Residential Rental Property.

FIRST AUTHOR: Sen. Alting **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues			(40,000)
State Expenditures			920,000
Net Increase (Decrease)			(960,000)

Summary of Legislation: This bill establishes property tax deductions for residential rental property. The bill limits an applicant to five deductions per year.

Effective Date: July 1, 2004.

Explanation of State Expenditures: The new deductions for rental property in this proposal would cause an increase in homesteaders' property tax bills which would result in an additional cost to fund the homestead credit. **The expenditure increase is estimated at $920,000 in FY 2006 and $2.8 M per year thereafter.**

Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any additional homestead credit expenditures would ultimately come from the state General Fund.

Explanation of State Revenues: The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The total revenue reduction under this proposal is estimated at $40,000 in FY 2006, and $80,000 each year thereafter.

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning with property taxes paid in CY 2006, this bill would provide a property tax deduction of $5,000 AV for each rental unit. The deduction would be limited to $100,000 AV per rental complex. Each owner of multifamily rental properties could receive the deduction on up to five multifamily properties statewide, and each owner of single-family rental properties could receive the deduction on up to five single-family properties statewide. Mobile homes and manufactured housing would be eligible for the deduction.

According to the 2000 Census, there were 667,223 occupied rental units. Adjusting for a proportionate share of the total reported unoccupied units, the estimate of total rental units is 723,202. At $5,000 each (within the $100,000 limit), the total deduction is estimated at $3.3 B AV. This deduction would result in an estimated net property tax shift of about $67 M beginning in CY 2006. This amount would be shifted from rental unit owners to all property owners in the form of a higher tax rate.

The actual total amount of the deduction could be less than the above estimate if any taxpayers are limited by the maximum of five multifamily and five single-family deductions.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Auditors.

Information Sources: Dataset: SF3, Tables: H7 and H30, U.S. Census Bureau; Local Government Database.

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